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190844Z May 05

UNCLAS SECTION 01 OF 04 PARIS 003416

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FROM USOECD

STATE FOR EUR/ERA  
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E.O. 12958: N/A

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SUBJECT: OECD REPORTING: ENVIRONMENTAL POLICY COMMITTEE AND  
HIGH LEVEL SPECIAL SESSION MEETING ON "COST OF INACTION,"  
APRIL 13-15, PARIS, FRANCE

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SUMMARY  
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1. The OECD Environment Policy Committee (EPOC) held its meeting on April 13th and 15th, 2005. In addition, EPOC held a High Level Special Session on the Costs of Inaction on April 14, 2005. Judith E. Ayres, EPA Assistant Administrator for International Affairs, led the delegation. The major actions and decisions taken included: 1) renewal of the Mandate for EPOC's Working Party on Global and Structural Policies (WPGSP); 2) agreement that the WPGSP and the Annex I Experts Group (AIXG) should, to the maximum extent practicable, annually hold consecutive meetings and improve coordination and communication concerning Climate Change work; 3) agreement that a meeting of the Environment and Development Ministers would be useful; 4) establishment of a task force to draft a Strategic Vision for the OECD Environment Program; and 5) election of a new EPOC Bureau.

2. The High Level Special Session on the Costs of Inaction included presentations and discussions on three issues: (a) human health impacts from pollution; (b) climate change, and (c) loss of biodiversity; and discussions about possible next steps for the EPOC on costs of inaction. END SUMMARY

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Renewal of Mandate for EPOC's Working Party on Global and Structural Policies (WPGSP)  
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3. The U.S. has had concerns with the proliferation of OECD work on climate change, and has refused to renew the WPGSP mandate as a result. At this meeting, countries agreed to hold back-to-back meetings of the WPGSP with the Annex I Experts Group as frequently as possible. The Secretariat agreed to notify climate contact points in delegations whenever an OECD body intends to conduct work with significant climate elements. As a result, the U.S. and other countries agreed to renew the WPGSP mandate.

4. The new WPGSP mandate includes the following language on climate change: "...to analyze the environmental and economic aspects of climate change, focusing on strategies and policies and to provide information and analysis to policy-makers and main stakeholders to enable them to better understand mitigation and adaptation options, including approaches which would benefit from international co-operation."

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Possible Joint Environment and Development Ministerial  
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5. Following the suggestion of the Development Assistance Committee (DAC) and the Environmental Policy Committee (EPOC) in late 2004, the EPOC Chair introduced the discussion of a joint meeting, its substance and its potential timing. It was suggested that the meeting may happen in May 2006 as a back-to-back meeting with the DAC High Level meeting to be held at that time. Following a discussion that reiterated the necessity of the Environment and Development Committees of OECD to work more closely together, delegates, including the U.S., noted that the proposed agenda was too ambitious for a one-day meeting. Suggestions for tightening the Agenda were made and the Secretariat committed to a) discussing with each delegation

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their suggestions; b) sharpening the draft agenda; c) proposing a revised agenda and budget to EPOC in the near future; and d) reporting back to the DAC on the comments and suggestions by the EPOC delegations.

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Efficient and Effective Partnerships Project Update  
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16. The Secretariat reviewed a revised work proposal, which was generally agreed to by delegations. Further financial support from delegations was not forthcoming and the Secretariat will proceed to secure assistance in-kind from

SIPDIS member countries and the project budget will be covered within the existing program of work and budget for 2005-2006 already approved. The U.S. supported further work in this area as did Australia, the European Commission, the Netherlands, Japan and others. The U.S. noted its recent success in sponsoring partnerships such as the "Methane-to-Markets" program.

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Development of a Strategic Vision for the OECD Environment Program  
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17. The Chair led a discussion about the need for and potential content of a Strategic Vision for the OECD Environment Program. The U.S. stated that if work on a strategic vision moves forward, decisions to improve efficiency by strengthening ongoing work and identifying areas of lower-value added from which to reduce or cut resources should be a goal of the new strategic vision. Furthermore, the U.S. noted that the strategic vision should be consistent with the objectives in the OECD Environmental Strategy for the First Decade of the 21st Century, which was adopted in 2001. The U.S. proposed an "electronic" discussion of the Strategic Vision amongst interested delegations. A decision by Chair Mats Olsson was made to bring together a small steering group of former and current Bureau members for a discussion in the end of June, to be followed by further electronic discussions. The results of this discussion will be presented to the extended EPOC Bureau session on November 9-10, 2006 in Paris.

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Update on Ongoing Environment Directorate work  
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18. Presenters from the Directorate discussed progress on (a) the Work Program on Sustainable Development; (b) the Environmental Policy and Firm-Level Management study; (c) Towards an Integrated and Pro-Active Outreach Strategy for the EPOC; and (d) progress on the next OECD Environmental Outlook.

8a. The work program on sustainable development: a presentation and suggestion was made that the potential joint meeting of the DAC and EPOC would present an opportunity to identify areas of common interest, best practices, and lessons learned through environmental auditing efforts associated with multilateral environmental agreements.

8b. Firm-Level environmental management: a presentation on the initial results of the survey of firms' environmental management activities generated engaged discussion amongst delegations. The final results of this survey work will be presented at the forthcoming OECD/US-EPA/Environment Canada Conference on "Public Environmental Policy and the Private Firm, to be held in Washington D.C. on 14-15 June 2005.

8c. EPOC Outreach Strategy: discussion amongst delegates ranged from Germany's comment that outreach capacity of OECD is by necessity limited due to resources and existing work loads, to Norway's enthusiastic support for additional outreach, to the U.S. position which noted that the U.S. strongly supports the development of an outreach strategy to non-member countries that is geographically diverse and that we support the participation criteria of "mutual benefit" and "major player". In particular, the U.S. endorsed the inclusion of Brazil, Russia, India, Indonesia, China, South Africa, Israel and Chile in the work of EPOC and other related OECD bodies.

8d. Developments of the next OECD Environmental Outlook: Directorate's Rob Visser discussed the economic modeling that will be used for the Outlook to evaluate a set of "policy packages" that will be determined over the coming six months or so.

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EPOC Bureau Elections and Other Business  
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19. EPOC Chair Mats Olsson noted the resignation of Judith E. Ayres as the Vice Chair of the EPOC Bureau (due to the expiration of her term of service) and thanked her on behalf of the Bureau and all delegations for her diligent service

to the Bureau and OECD. Elected to the Bureau are two new Vice Chairs, Mr. Kevin Keefe, Assistant Secretary, Department of Environment and Heritage, Australia and Ms. Nicole Ladouceur, Director General, International Relations Directorate, Environment Canada. In addition, Chair Mats Olsson was reelected, along with Paolo Soprano of Italy, Kazuhiko Takemoto of Japan and Kamil Vilinovic of the Slovak Republic.

10. EPOC delegates agreed to hold the next meeting in plenary session on 1-3 March 2006 in Paris. Chair Olsson also reported to the group on discussions with the Polish government to hold the EPOC meetings on 25-27 October 2006 in Krakow, Poland due to the upcoming renovations of the OECD Headquarters in Paris. Final arrangements are proceeding. Finally, Chair Olsson noted that the European Environmental Bureau will not be able to participate in future stakeholder sessions of the OECD Environment Directorate due to the expiration of financial grant support from the government of Greece.

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High Level Special Session on the Costs of Inaction  
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11. At the request of Environment Ministers in the fall of 2004, a High Level Special Session was held to discuss the costs of inaction. The session was divided into three presentations on specific issues (human health, climate change and biodiversity) and a discussion session amongst delegates on the significance of the issue and possible next steps.

12. The health impacts discussion highlighted the current differences in methods and assumptions that are used to place a value on morbidity and mortality. The need for additional benefit estimation methods development was emphasized and questions of health effects thresholds, discount rates, time horizons, chronic -vs.-acute effects, and method transparency were noted. Second, presenters and discussants noted the necessity to extend these health effects benefits estimation methods to environmental problems beyond air pollution, and more specifically beyond particulate matter air pollution. Other environmental problems needing monetization were mentioned. These included water pollution; chemicals and toxics; particularly PBTs; waste issues; and habitat degradation.

13. The third topic of the health impacts discussion concerned the current application of these methods by policy makers. The World Bank's application of their cost of environmental degradation model; the Australian's efforts to place a value on and modify use practices concerning the Great Barrier Reef; Mexico's valuation of air pollution reduction benefits; the Czech Republic's quantification of electricity generating externalities; Norway's estimates of PCB cleanup costs; and Canada's assessment of childhood asthma, school attendance and possible reduced future productivity all indicate a robust demand for and use of these cost-benefit tools. The U.S. noted that the U.S. EPA bases most of its governmental mandate to make further air pollution reductions in the transport and utility sectors on these analytic tools.

14. A fourth area of the group's discussion focused on the difficult social and ethical issues associated with the application of these tools. Delegates noted that politicians are making decisions about ethical issues such as the worth of a child's life -vs.- that of an elderly person and the worth of a poor person's health -vs.- that of a relatively wealthier one. Discussants noted that these choices are usually, in the end, beyond the decision-making capacity of economists, yet decisions on assumptions are being made as the demand for the application of these tools rapidly multiplies.

15. Following this session, the delegates heard presentations on the costs of inaction with respect to climate change, focused on a paper by Dr. William Cline. The EU generally used this as an opportunity to press on the need for early action on climate change. The U.S. and Japan noted that the choice of the discount rate determines the long-term costs, and that this was a difficult choice. The U.S. felt the issue was poorly framed - that it makes more sense to speak of the benefits of action, as opposed to the costs of inaction. EPOC agreed that no further work was needed beyond that being conducted under the WPGSP on benefits of climate action.

16. The final cost of inaction session concerned the Costs of Inaction with Respect to Biodiversity Loss. Dr. Geoffrey Heal of Columbia University presented a paper commissioned by the Secretariat. This was followed up by presentations from Dr. Jackie Van Goethem of the Royal Belgian Institute of Natural Science and Mr. Ian Dickie,

Senior Economist, Royal Society for the Protection of Birds. Heal's presentation centered around the point that biodiversity does matter for the functioning and survival of ecosystems. Ecosystems provide services of all kinds and the functioning of natural systems are key and biodiversity is a big part of why ecosystems matter. It is vital to agriculture, climate change and a host of other issues. His paper discussed how to value biodiversity noting the difficulty of presenting such value in national income accounts. In the discussion that followed, Portugal noted that while doing a cost-benefit analysis on biodiversity will be tough, they support this work because of its impact on humans; Australia discussed trying to place a value on natural resource systems, particularly the Great Barrier Reef which is important to tourism, chemistry, commercial fisheries and other end uses. The U.S. stated that finding the benefits of environmental investments is something we have pioneered and used for the past thirty years.

17. The three papers will be issued under the author's recognizance, with no OECD or member country endorsement.

18. EPOC members decided that the Secretariat should prepare a summary of existing work in the OECD on cost-benefit analysis and suggest additional case studies, if any, that might be pursued. The U.S. and Finland offered financial assistance for the next phase of this project once the final course is determined.

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